March 25, 2005

Hearing Clerk
U.S. Department of Agriculture
Room 1081-S
Washington, DC 20250-9200

RE: Hops Produced in Washington, Oregon, Idaho and California; Proposed Marketing Agreement and Order No. 991; Opportunity To File Additional Argument
[Docket Number AO-F&V-991-A3; FV03-991-01]

Dear Sir or Madame:

We appreciate the opportunity to provide additional input regarding the proposed marketing order for hops. We remain strongly opposed to this marketing order, and believe that the marketing order proponents failed in the October 2003 Administrative Hearing to demonstrate either a need for this marketing order or that this proposed new system of supply controls could achieve the industry-wide benefits promised.

USDA is requesting additional comment on the representative base period for the proposed marketing order (70 FR 9000). While USDA has correctly identified the base period as an issue in need of additional discussion and definition, this is in fact just one of many concerns that the marketing order proponents were unable to resolve or properly address despite eight days of testimony in Oregon and Washington. We refer you to the post-hearing comments we submitted on January 29, 2004 where we discussed some of these additional unresolved issues
(http://www.ams.usda.gov/fv/moformal/signorotti.pdf).

However, despite the request for additional input, we remain concerned that neither base period under consideration by USDA (i.e. marketing years 1997, 1998, 1999, 2000, 2001, and 2002; or the six marketing years immediately preceding any eventual implementation of a marketing order) would address the fundamental problem that *any* base period that reaches far into the production history for individual growers would unfairly reward those whose production has declined over time, at the direct expense of those who voluntarily invested in expanding their operations—often at considerable risk to their own livelihood and future market prospects.

This blatantly inequitable distribution of production base is clearly documented (see hearing exhibits 30 and 32) and is not in dispute. The marketing order proponents appear willing to accept this implication as a necessary outcome of the proposed regulations. We hope that USDA is not equally nonchalant about this inequity. A six-year base period clearly highlights the unequal treatment of different producers that is central to this marketing order, and the arbitrary nature by which this regulation could create severe economic hardship among some, while directly rewarding others. We continue to believe this is fundamentally unfair and is not the proper or intended role of government regulation. The only way to minimize this inequity would be to make the representative period as recent, and as short, as possible.

Aside from the inequity of base allocation, we remain concerned that the supply controls at the heart of this proposal will inflict severe damage on the industry, and sacrifice not only the long-term competitiveness of US hop producers but also the recent gains the industry has achieved in expanding foreign markets and alleviating its own difficult market challenges. Indeed, the market situation facing US hop producers has changed considerably in the few short years since this marketing order was originally proposed, and while few would argue that the challenges faced by US growers have been completely eliminated, recent developments clearly add to the body of evidence that supply controls are an inappropriate tool for addressing the challenges that remain.

Hop Market Situation

The market conditions faced by US hop growers today are far different from those that characterized the US hop industry when the marketing order was originally proposed. In many important aspects, conditions have improved from those highlighted in the original proposal, which only increases the skepticism that supply controls administered through a marketing order are necessary or could be beneficial to US growers. The following developments are of key importance:

- **Burdensome US supplies have already been removed from the market.** Since 2000, US hop acreage has exhibited an orderly decline from 36,120 acres to 27,742 acres in 2004.[1] Far from evidence of a "reactionary planting cycle," the lower acreage demonstrates that farmers respond to market conditions rationally without the need for forced intervention by a central planning committee. Similarly, after reaching a peak of 7.6 million pounds in 2001, US production of alpha acid has also declined to less than 6.4 million pounds in 2004.[2] The result is that the US "surplus" of alpha acid that was prominently highlighted by marketing order proponents has largely evaporated. Both leading independent hop merchants (S.S. Steiner and John I. Haas) estimate that in 2004 world alpha acid usage *exceeded* current production (from the 2003 crop) by more than 920 metric tons (resulting in an alpha deficit), and the initial estimate for 2005 suggests only a modest worldwide alpha acid positive balance of 182 metric tons.[3]

---

[1] Source: USDA/NASS
[2] Source: USAHops 2004 Statistical Report
[3] Source: Hopsteiner 2004 Guidelines for Hop Buying; The Barth Report 2003/2004

The US dollar no longer places US growers at a "competitive disadvantage" in world markets. In 2002 the Euro/$US exchange rate reached 1.14, and the effective Deutsche Mark/$US exchange rate was as high as 2.25. Proponents of a hop marketing order argued that the strong dollar makes US hops relatively expensive on the world market, and suggested that the costs of production in Germany and the United States are such that the DM/$US exchange rate should be between 1.6 and 1.8 for the US to be competitively priced on the world market while still providing a return to the grower.[4] By the end of 2004, the Euro/$US and the DM/$US exchange rate stood at 0.68 and 1.46, respectively—suggesting the US dollar has declined even further than the level hoped for by the marketing order proponents.[5] *As a result of these positive exchange rate developments, the US hop trade surplus reached a record $103.7 million for the 2003-04 crop year.*[6]

The market conditions identified above reflect an industry that is independently capable of managing its own production and marketing decisions and that looks forward to improved market prospects. Indeed, there is no evidence that a marketing order would have strengthened the industry's position over this period. In fact, given that these favorable market developments occurred despite the admonitions of marketing order proponents who testified of a US hop industry in a persistent state of crisis, it is not unreasonable to consider that had a marketing order been in effect, the industry might instead be facing a far less positive outlook than it does today. Forced supply controls beyond the reductions that occurred naturally almost certainly would have eroded the strong and growing US hop trade balance, and would have simultaneously provided opportunities for expansion in China, Germany, and elsewhere. Experience clearly shows that the market remains the best guide for US producers and the most efficient mechanism for allocating industry resources.

In summary, we continue to believe that a hop marketing order will be harmful to the US hop industry, will create inequitable transfers of wealth between growers, and will erode the ability of our industry to compete in today's global markets—regardless of the representative base period chosen. The market today is far different than it was under the previous failed marketing order, and recent market developments only add to our concerns that supply controls are both unnecessary and potentially very harmful to the industry.

While all growers are united in our desire to receive higher and more stable prices for hops, it is our conviction that the market remains the best mechanism to guide producer decisions. We respectfully request that based on the weight of evidence provided in the administrative hearing and evolving market conditions in the world hop market today, USDA reject the proposed hop marketing order in its entirety and allow growers to again focus their full and undivided attention on hop production and marketing.

---

[4] "Justification for the Proposal in Favor of a Hops Federal Marketing Order" Fall, 2002, p. 3

[5] The Deutsche Mark is no longer an official currency, but is quoted here to provide consistency with figures cited in the original hop marketing order justification document, op. cit.

[6] Source: USDA Hop Market News

Sincerely yours,

United States Hop Growers

WASHINGTON

Joe Champoux
Eric Desmarais
Marc Desmarais
Lee Desmarais
Patrick Favilla
Robert Favilla
Mike Gamache
Aaron Gamache
Dean Lenseigne
Leroy Lenseigne
Stacy Puterbaugh
Martin Puterbaugh
Kevin Riel
Keith Riel
Janet Segal
Edward Shinn
Kyle Shinn
Paul Signorotti
Richard Van Horn

OREGON

John Annen
Laura Annen
Jeff Butsch
Paul Fobert
Henry Geschwell
Billy Geschwell
Mike Kerr
Andy Kerr
Dick Kirk
Terry Kirk
Richard Kirk
Dean McKay
Mark McKay
Ben Smith
Monty Smith
Sam Smith
Chuck Stauffer
Tony Weathers
Terry Weathers
Harley Weathers
Mark Wilmes

IDAHO

Reed Batt
Mike Gooding
Greg Obendorf
Ann Obendorf
Ray Obendorf
Jon Weilmunster